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An Essay

ON

Political Economy.

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AN ESSAY ON POLITICAL ECONOMY,

BY

GEORGE G. McDONALD.

In the beginning of Economic History each man supplied his wants. As intelligence developed easier ways of supplying these wants were found: the spear, bow, and arrow were invented. Other inventions followed, until men found themselves compelled to follow three pursuits to make a living. These were hunting, agriculture, and manufacturing. Some men showed a particular talent for one of these pursuits and a corresponding lack of talent for others. So, slowly the fact dawned on man, that three men, each of whom were engaged in a different pursuit, could produce more than three men, each of whom divided his time between the three pursuits.

The perception of this fact inaugurated the age of barter and the division of labor. Man's wants more than kept pace with his producing power. One of the strongest of his wants was a desire to ornament his person. At first he used paint, then shells, and then metals. Silver and gold have ever been the favorites, because of their brightness, scarcity, and indestructibility. As men separated and settled in different communities, and ways of making a living multiplied, barter became more and more inconvenient. As a consequence of this there arose a demand for a form or forms of wealth that in a small space would be equivalent to other forms of wealth of greater bulk.

Silver, gold, and copper fulfilled this demand, and when used in this connection are called money. As soon as a

money was found commerce sprung into a vigorous existence. Some man by trading amassed a considerable amount of money. Finding there was a demand for certain kinds of goods, he hired men to manufacture these articles. This man was the first capitalist, and his action marked the beginning of what is called the industrial system. Others followed his example and the production of wealth became more rapid than ever before. At this point it will be well to examine what facts have now developed. First we see that that money or wealth has been used in a new way. Heretofore it has only been used to spend or gratify some wish; but now, for the first time, money or capital has been put with labor for the production of more wealth. This money will be called the capital or production fund. Second, we see that men only manufacture what there is a demand for. When that demand is supplied the over production ceases, for those who consume will not buy because they have enough. This is called the action of the law of supply and demand. The action of the law in this case is to force some of those engaged in this occupation into others. Working in this way it has the effect of preventing too many from working at one pursuit.

As the people will only buy of those who make the best and cheapest it also has the effect of selecting those best fitted for each occupation. This submitting by each of his productions, besides those engaged in the same line for the patronage of others, is what we call competition. History has progressed far enough so that we can notice two more facts in connection with the capital or the production fund. First, that capital requires labor; second, that this demand of the production fund for labor increases faster than the natural increase of laborers. The result of this is that labor steadily rises in value, and the laborer finds

his ability to consume has kept pace with his constantly increasing ability to produce.

In the next and last place we will notice that the value of capital is always marked by the rate of interest it will bring. As each new invention accelerates the production of capital we find that the supply is greater than the demand, and the rate of interest gradually falls. It will be urged against the statements made that they cannot be sustained by the facts as they stand to-day: instead of there being a constantly increasing wage it sometimes decreases, while the producing power is kept the same. While this is true, I think it must be quite plain that the order that has been indicated is the natural one. It is the course natural law would have us follow. Events progress this way for some years, and then comes a violent reversal of natural forces. This we call a panic. A panic is something that destroys a large part of the producing fund; rapidly raises the rate of interest; shuts down factories, throwing men out of work; and it also destroys the market. As a consequence, prices fall and the manufacturer has to cut down the cost of production. This he generally does by cutting down the wages of his help. During the panic of 1893 all the things enumerated took place. Wages fell fully ten per cent. While the laborer's consuming power was cut down, his producing power was left the same. Out of a ten per cent cut down I doubt if the laborer gets over three per cent of it back in cheaper cost of living. In this fact we shall find one cause of what is called the over-production. It is hard to conceive of a general over-production. It would seem as if the consuming power of man would always outrun his producing power.

Our present over-production is an under-consumption caused primarily by panics. There is a general complaint against trusts and monopolies. These institutions are

directly traceable to this over-production. When there is an over-production of anything the natural tendency is for the price of that commodity to fall until production becomes unprofitable and stops. There is a check on the price falling too far, and that is speculation. The true office of speculation is to steady values. To-day it is generally used to unsteady them. If there is more wheat raised in a year than can be consumed, speculation steps in before the price has fallen too far, and carries the surplus of one year to the deficit of the next, thereby preventing extreme fluctuations during the the two years. When there is a continued over-production speculation cannot perform its office, so men whose business is affected by this over-production form themselves into combinations called trusts, for the purpose of controlling the production and thereby keeping the supply equal to the demand. By doing so they are able to command a fair price. Finding themselves able to demand a higher price they seldom fail to ask it. The Standard Oil Company is about the oldest monopoly in the country. There was a great over-production of crude oil, and there was neither price nor market for it. The Standard Oil Company developed the market; and, as the over-production continued, it was able to pay its own price. Had there not been a large over-production of crude oil, there would not have been a standard oil company trust to-day.

There is another complaint, and that is against competition, especially where it applies to the laborers who compete with each other for employment. Competition, when it applies to merchandise, gives us the best and cheapest; but when applied to labor, its effect is to cheapen the labor and degrade the laborer. I have seen the statement that when Thomas Hood wrote his "Song of the Shirt" women working in the sweat shops of London received a penny an hour,

and to-day they only receive half a penny an hour. If the first statement is true I doubt not the second, for there has been a steady competition of laborers for work in this time, and the inevitable effect of competition is to lower the price of the article so affected.

An investigation into the wages of sewing women in our large cities would probably show much the same result. On the other hand, the demand for skilled labor has generally been greater than the supply; so their wages show an increase during this time. This general over-production o labor that we have had in the last decade has had the same effect on laborers that an over-production has had on manufacturers. They have formed themselves into combinations; but not being able to limit the supply, and being consumers and not producers during a strike, they have not been as successful as the manufacturers. It is not difficult to see that if the natural course of events had taken their course the production fund would have grown to such proportions that it would have employed all the available labor. In this case we see that the burden of competition is shifted from the shoulders of the laborer to those of the manufacturer. The competition is now between manufacturers for laborers. Then competition only enters the laborer's life to benefit it It gives him the highest price for his labor and the most and best merchandise for his wages. Under these conditions the old saying comes true, that "the laborer is worthy of his hire."

The United States has had more financial panics than any other nation. There are a number of reasons for this. One is that we produce wealth faster than other nations because we use more machinery in production. Another is that up to within a few years taxes have been light, so that the government did not consume any of the production fund. One hundred thousand dollars taken by the govern-

ment and spent might employ one hundred men one year, while if put into the production fund it would employ one hundred men permanently, and it would in twelve or fifteen years produce another hundred thousand that would employ another hundred men. It seems to me that taxes should be kept at a reasonable point, and in general it is a good principle to put taxes on consumption. Men should be taxed for what they destroy and consume, and not for what they produce. If taxes could be levied this way the production fund would largely escape taxation. There is a fallacy that is universal among politicians and quite general among the people: that it is a good thing for the government to spend a large amount of money. They say it puts money in circulation. The laborer gets the money and he buys of the butcher, baker, etc., and they in turn buy of some one else. According to their theory there is no end to the good that a government dollar will do, and if the government would only spend enough of them we all ought to be happy. When a man gets fifty dollars from the government and spends it for merchandise, and consumes the merchandise so purchased, he has destroyed that fifty dollars of wealth as effectually as if he had burnt it. Money is the sign, the measure of value, as the pound is the measure of weight. If a man buys a pound of sugar he consumes the sugar not the weight that measured the sugar. The dollar goes on to measure more wealth and the weight to measure more merchandise. It is a good point to note that neither the number of pound weights nor the number of dollars in existence make business. They are facilities for doing business. To sum up this discussion of taxation, we would say that the government never contributed one dollar to the production fund directly; but through the education, police protection, etc., it furnishes it contributes indirectly.

Another thing that has helped to make our panics more frequent is that large amounts of foreign capital have been sent here which has been added to our production fund These things—rapid production of wealth, small taxes and foreign capital—being added to our production fund, have hurried us again and again to that point where it is much more profitable to export our gold or money than our merchandise. In the year 1892 business was good, the surplus labor on the market had been pretty well taken up, business was being done on conservative lines. The next year saw a change: prosperity was turned into depression, and the cause of it was that the cost of production had got so high in this country that when a foreigner shipped goods here and sold them, his best purchase was gold. One dollar in gold would buy more merchandise in Europe than here, and so he took it home with him.

It is well to observe the fact that when we sell anything it is sold for money. To-day that money is changeable into gold without loss. And so long as that gold has a greater purchasing power abroad than it has here, just so long will gold continue to leave our shores. The value of gold is controlled by the same law that controls the value of other commodities, and that is the law of supply and demand. As gold goes abroad the supply becomes less, and gold rises in value. We say prices fall, in reality gold rises. It must be a blind man that has not observed these two facts in the last two years. Every market report that has read "Heavy gold shipments" prices fell off two or three points. If it has read, "Five million engaged for import," the market report has said, "Heavy gold importations, market bullish, gained two points." Had it not been for the fact that the wheat crop has been a failure in other parts of the world for two seasons, and made this country the only place to buy, there would not have been any gold importations

this year. To the fact that there was a failure of crops abroad we owe our present good price for wheat. If there is a good crop in Europe, South America, and India next year we shall surely see fifty cent wheat again in a year. There is no dearth of cotton, and the lowest price known is the result. It is in vain that the panic of 1893 is attributed to the fact that forty-eight million dollars of silver certificates were being added to the circulation. A too large increase of money means inflation. Inflation is another name for unnaturally high prices. Now the facts of the case are that prices did not advance during the years 1891 and 1892. The market was good and active during this time, and manufactured goods barely held their own in price. There should be three forces at work to govern prices — competition and invention to lower prices, and an increased value of labor to keep them up.

Next, let us look at the panic of 1857. In 1849 gold in large quantities was found in California. By 1852 and 1853 business commenced to feel the effect of an increased gold production in a livlier market and higher prices. In fact, times were good in 1853, 1854, 1855, and 1856. Then came the panic of 1857. Our gold went abroad the same in 1857 that it did in 1893. The value of a dollar rose and prices fell. The poor banking system in the country then was no doubt a factor in the cause of the panic. Next, let us look at England and see why she has not gone through the same experience that we have, although having the gold standard, and being one of the largest producers of capital, perhaps the largest in the world. Not long ago I saw the statement that the citizens of Great Britain had an annual income of more than one thousand million dollars from foreign investment. This will represent an investment of thirty thousand million dollars. As the capitalists of Great Britain have lost many

thousand million in failures and panics in other countries, it is reasonable to suppose that at least thirty thousand million has been taken from, or rather is the result of, production in England. Had this sum been spent in constructing other factories and works in England the demand for labor would have steadily risen in value. As it is, wages in England are going a little down hill. Germany, having a cheaper wage, is underselling the English. I saw the statement the other day that England's foreign commerce has fallen fifty-five million a year compared to what it was twenty years ago. During one of the recent strikes in England I saw a comment from the *London Times* to the effect that if British workmen persisted in trying to raise their wages and kept preventing the introduction of labor-saving machinery England's foreign commerce must fall away, for the German, having a cheaper wage, would undersell them. The consequence of this taking the increase of capital and investing in other countries has been to keep the wages of Great Britain about stationary, and has prevented any perceptible rise in the cost of production. This is the reason why England has been so free from panics. Next let us look at the effect of this foreign capital in the countries where it has been invested. English capital has gone into all parts of the world. Especially can its effects be seen in the United States, Australia, and South America.

The investing of foreign capital in this country has been a great factor in keeping up the wages of our workmen. It has offset the depressing effect of the large amount of labor that has been thrown on our labor market by immigration. It is estimated that there is between eight and ten thousand million dollars of foreign capital invested in this country, this brings an income of fully three hundred million dollars annually to its owners. So we see for the United States to pay its debts we must export at least three

hundred million more than we import. This has put a leverage in the hands of foreign bankers, who control the foreign capital invested here. By taking their interest in gold they can depress the markets at will. By shipping in gold they can boom our markets. Market prices should be controlled by natural law; but to-day they are controlled to a great extent by foreign capitalists who can manipulate our gold supply at will. If the interest on foreign investments were paid in gold for two years we would have drained off all our gold supply. The effect of foreign capital going into South America and Australia so rapidly was to give an unnatural stimulus to business, creating an abnormal demand for labor at the time. As a consequence the cost of production rose rapidly, and when the English investor commenced to stop sending capital and demanded a return on his investment, the inevitable crash came.

About one hundred and fifty years ago Holland was the first commercial nation on earth. Her bankers occupied the position that English bankers do to-day. The gold supply was centered there. When a nation wished to borrow money they went to Holland and not to London. Holland at that time stood alone, in an industrial sense, and we shall find in her history a carrying out of the principle that, as an industrial nation grows richer the rate of interest falls, and the demand that capital makes for labor causes it to rise in value. At the time Adam Smith wrote his "Wealth of Nations" he speaks of the home government being able to borrow money at two per cent, and that four per cent was the going rate in business transactions. He also speaks of wages being higher in Holland than in England. Not many years after he wrote, "There came a fearful panic in Holland. The Dutch banks lost their standing and the gold supply centered in London. Holland had lost her position in the commercial world, yet her business men

were honest and conservative." It has been a matter of speculation to economists as to what was the real cause of her downfall. The truth of the matter is that a nation with a cheaper wage and greater inventive powers had become her competitor. As a consequence she was undersold, the balance of trade set in against her, her gold supply went to pay this balance. As the money left the value of gold rose or, as people say, prices fell. This intensified the demand for money, and the rate of interest rose. The reason we do not sell more mannfactured goods abroad is that our cost of production has been higher than that of England.

In the matter of bread stuffs we have been able to compete for two reasons: one is that we invented and used labor-saving agriculture machinery; another, we have had a new rich soil. These advantages have more than offset the cheaper labor of other countries; but the time has come when South America, Australia, and Europe are using our machinery, and had it not been for short crops in the rest of the world for the last two years, we would be selling our wheat for fifty cents per bushel, as we did in 1893, 1894, and 1895. Dollar wheat will pay a large balance against us, but fifty cent wheat only pays half as much. We must look for our gold to be exported under these conditions until it rises in value as high as it is in Europe. We will say prices fall; but such will not be the case. Money rises in value. When it rises high enough and wages are low enongh we shall have as large a foreign commerce as other nations, and not until then under our present money system. England's experience with free trade was thoroughly satisfactory. Ricardo urged its adoption because English workmen could live cheaper, and the cost of production could be kept down so that English merchants could compete better with their rivals. The agriculturist

opposed it because it would compel him to sell his product cheaper. Both were disappointed in their expectations. England was at that time easily the cheapest market in the world in which to buy manufactured articles. As a consequence of this when a ship load of goods was sold a ship load was bought; for there was no cheaper place to buy manufactured goods than in England. This stimulated manufactures, increased the demand for labor, and thereby increased its value. The home market became a much larger and better one than it had been to the agriculturist, so that at the time he did not suffer. Had there been a country that would have sold cheaper, the merchant would have sold his goods in England and taken the gold he received and purchased in the cheapest market. England being thus drained of its money the effect of it would have been to make her money rise in value. Her manufacturer would have said that the foreigner undersold him, and he would have demanded a protective tariff to protect him against this foreign rival.

Commerce should be an exchange of merchandise. It is self-evident that the more there is shipped into a country the more has to be shipped out to pay for what has been shipped in. If the European can produce some articles cheaper or better let them do so. If the effect of this is to shut down a factory they must start others of our countrymen to work to pay for what they have sold us. If the United States were to declare for free trade to-morrow and remove all custom duties, there can be no doubt but what the importations would be perhaps three times as large as at present; the foreigner finding his gold dollar has a greater purchasing power abroad than here, would take it home with him; our entire gold supply would hardly last the year out, and the same result would follow that has been pictured in England's case, on a higher cost of production. We see that really protection is a device for keeping gold

in the country by keeping foreign commerce out. It is not protection that we want, but a better money system.

Money is the measure of value. The necessary qualification for a measure of any kind is that it should be constant. To illustrate the evil of a fluctuating measure of value we will suppose a farmer, whose only crop is wheat, borrows one thousand dollars in 1890 to be paid back in 1895 with interest at eight per cent. Wheat is worth a dollar a bushel in 1890; and we will suppose this farmer is capable of raising one thousand two hundred bushels per year. Dividing it into day's labor, we will call it four bushels he is able to raise per day, his interest charges are eighty dollars per year or twenty days' labor. In 1893, 1894, and 1895 wheat was at fifty cents. His interest charges are still eighty dollars; but now they represent forty days' labor per year. Had he paid back his thousand dollars the year he borrowed it it would have only represented two hundred and fifty days' labor. In 1895 it represented five hundred days' labor. On the other hand, suppose because of an inflated money, wheat brought two dollars per bushel. Now the farmer's interest charges only represent ten days' labor, and the principal one hundred and twenty-five days' labor. In this case the creditor is cheated, and the effect of the inflation was to wipe out one half of the value of the available capital of the country. Under a rising money standard men tend to hoard their money. Suppose prices fall ten per cent in a year, the man that has kept his dollar in his pocket has made ten per cent by doing so. The man that invested in merchandise and had to hold it, has lost ten per cent. On the other hand, suppose that prices rose ten per cent. Now the investor makes and the holder loses, for his dollar will not purchase as much as it did the year before. This fact is generally seen, and during a rise in value the circulation is unduly forced, and injurious speculation is the result.

What we want is a money that will cheat neither debtor nor creditor—one that men will neither gain nor lose by a simple investment or failure to invest.

There are two kinds of money in the world. One is legal tender, the other is non-legal tender. This kind of money consists of checks, drafts, etc., and constitutes about ninety per cent of all the money in circulation. The government collects about one thousand million dollars per year from her citizens. If the government chooses to say that a piece of paper instead of a piece of gold shall convey the labor of the tax payer to it, that piece of paper has received value because of the government fiat. There is, of course, a limit to the amount of value that the government can so give to pieces of paper; but I believe that it can so create enough money — good money — to carry on business.

We have to-day two forms of paper money—the national banknote and the greenback. With proper banking facilities in every community the national banknote seems to be an ideal money. A national bank is really a factory for the production of money of both kinds, legal and non-legal tender The production of money is here put on the same basis as the production of other things, and it will be controlled as it should be, by the law of supply and demand. On the other hand, if we have greenbacks their issue must depend on a vote of Congress; and it is harder to tell the amount of money wanted than that of any other commodity. Once the danger of having our money exported is done away with and values get settled, I don't believe the amount of legal tender money that is necessary is as large as generally supposed. Another objection to the greenback is, that with every issue would come the agitation of the debtor or creditor that he was being cheated. Under these agitations business could not proceed.

Under a correct money the importation or exportation of a hundred million of gold would neither lower nor raise the value of a dollar as it does to-day. We could enjoy and prosper under free trade while having even a higher wage standard than Europe. Many nations have tried a paper money, and all have a better experience to relate, still we must remember that it carried us through the great rebellion. There was inflation during the war, and contraction after the war. This contraction and consequent decline in prices caused the panic of 1873. The man that owed a dollar in 1866 owed in 1872 a dollar that it took more than twice as much labor to produce. Capital could not earn any such return, so those that owed could not meet their obligations. Men by keeping their money in their pockets from 1866 to 1873 could get greater return than they could by putting it into business. This contraction by the government forced a greater contraction by the people, which finally culminated in the panic of 1873.